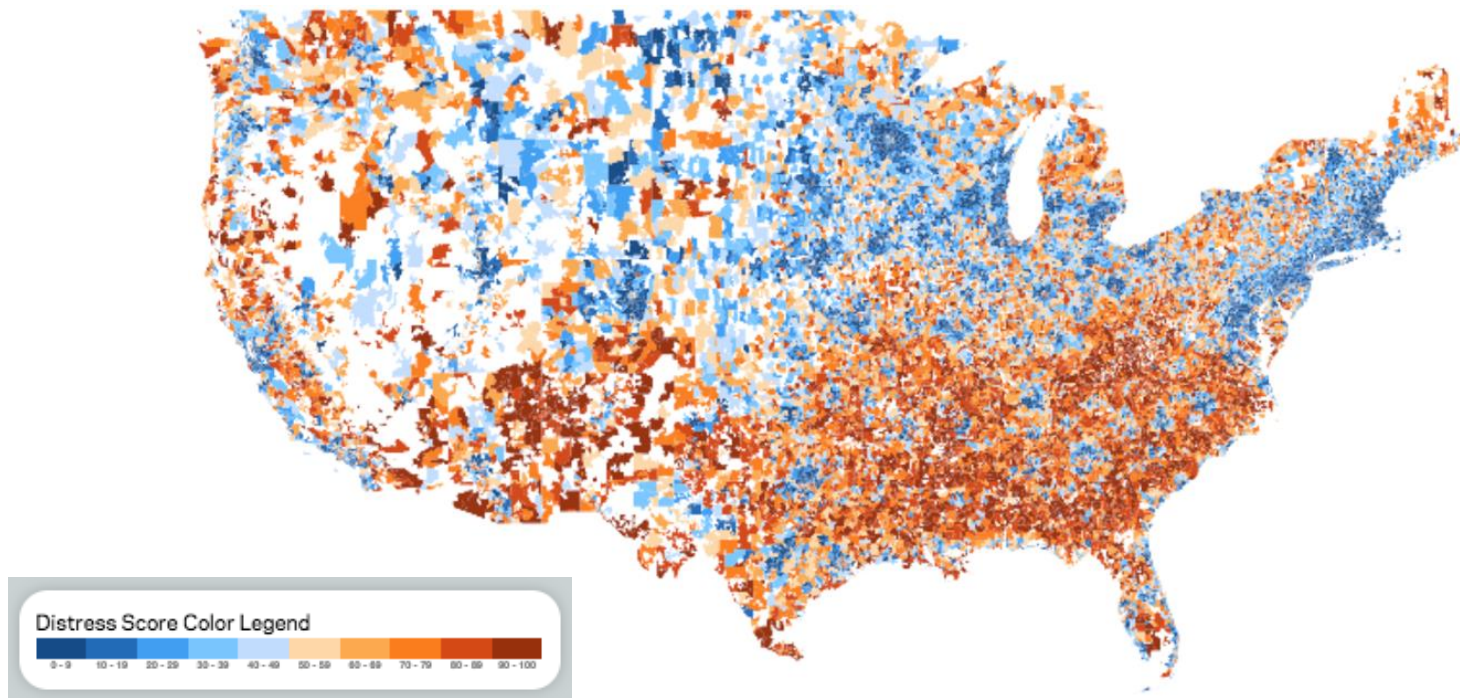




Qualified Opportunity Zones

Why Opportunity Zones and Why Now?

52 million Americans (1 in 6) live in economically distressed communities



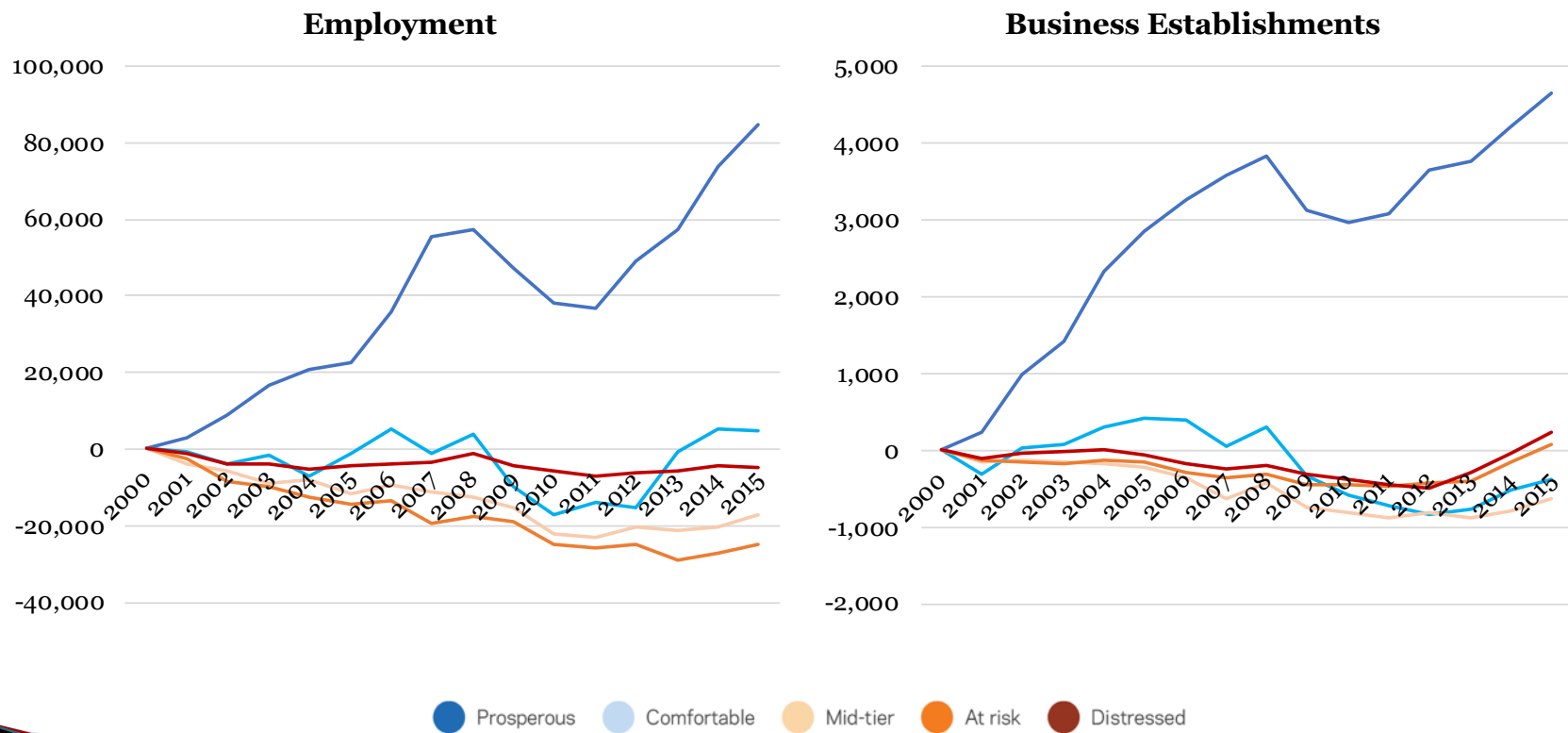
Prosperous

Distressed

Source: EIG's "Distressed Communities Index"

...and distressed communities are being left behind

Cumulative change since 2000



Source: EIG's "Escape Velocity"

Opportunity Zones are an innovative, flexible, and bipartisan solution for catalyzing private sector-led economic growth

Opportunity Zones were established by Congress in the Tax Cuts and Jobs Act of 2017.

The new provision is based on the bipartisan *Investing in Opportunity Act*, which was championed by Senators Tim **Scott** (R-SC) and Cory **Booker** (D-NJ) and Representatives Pat **Tiberi** (R-OH) and Ron **Kind** (D-WI) and attracted nearly 100 bipartisan cosponsors.

ElG originally developed the concept in a 2015 working paper authored by Jared Bernstein and Kevin Hassett.



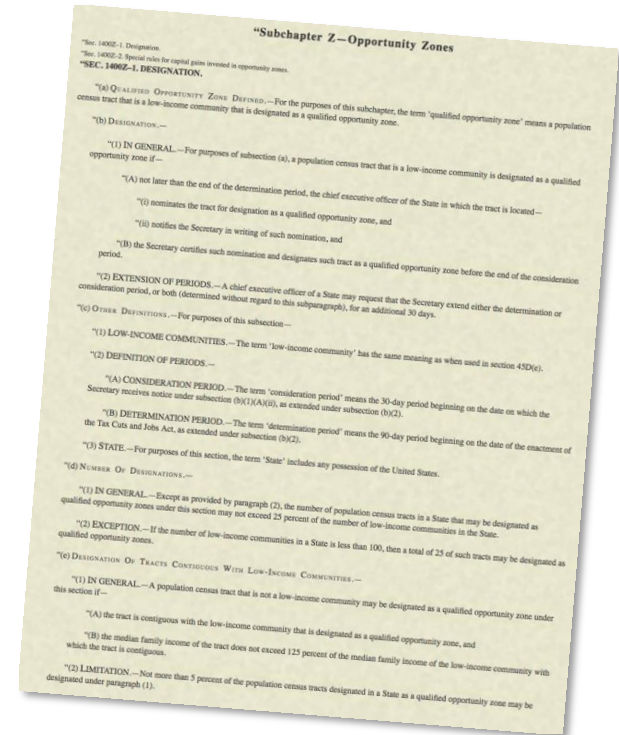
Opportunity Zones aims to connect low-income communities with much-needed capital



Capital – U.S. households and corporations were sitting on an estimated **\$6.1 trillion** in unrealized capital gains at the end of 2017.



Connect – Opportunity Zones offer a frictionless way for investors to dedicate all or a portion of their winnings to seeding the next generation of enterprise in distressed communities all across the country. In exchange, investors get a graduated series of federal tax incentives tied to **long-term holdings**.



OZ Benefits

1. Deferral of Gain
2. Partial Forgiveness of Deferred Gain
3. Forgiveness of Additional Gains

- Time Value of Deferred Obligation – earlier of:
 - Date the investment is sold or exchanged; or
 - Outside date of December 31, 2026
- Gain Recognition
 - Amount of gain (or fair market value)
 - Less: the taxpayer's basis in the opportunity zone fund
- Partial Forgiveness of Gain – The Basis Step Up
 - 5 year hold = 10%
 - 7 year hold = 15%
- Forgiveness of Additional Gain/Investment Appreciation
 - 10 year hold
 - Basis step up

Sample Investment

Jan. 2, 2018

Taxpayer enters
into a sale
generating \$1MM
of capital gains

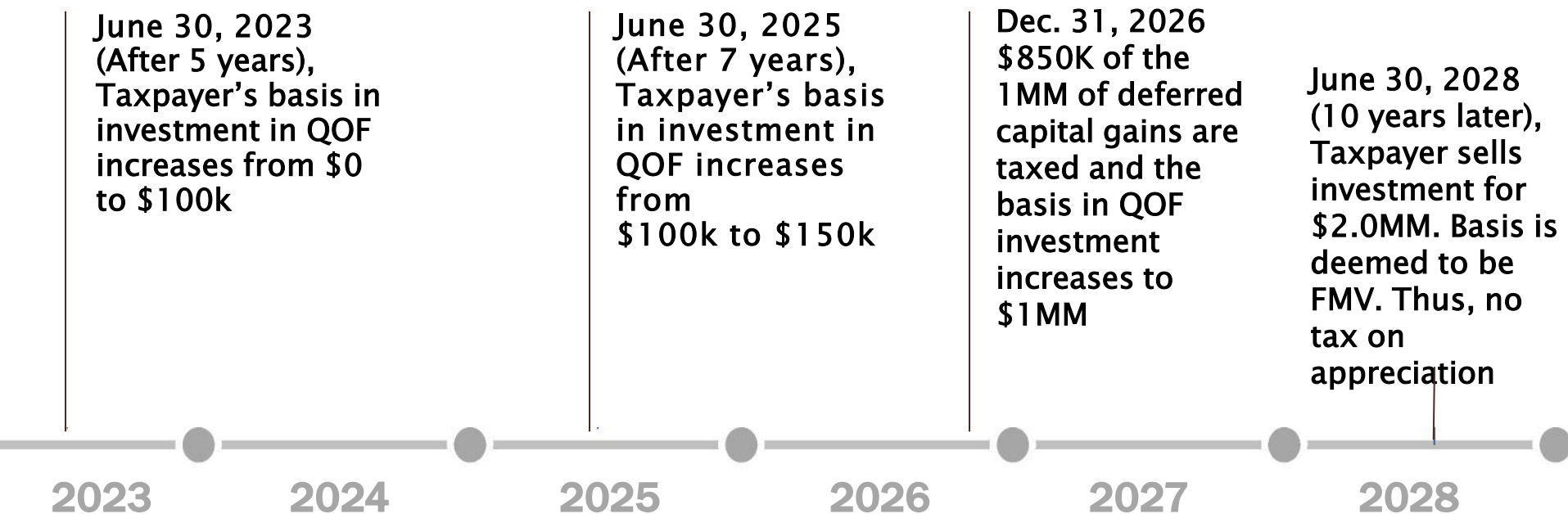
June 30, 2018

Taxpayer contributes
entire \$1MM of capital
gain to a Qualified
Opportunity Fund

- Taxpayer is deemed to have a \$0 basis in its QOF investment
- QOF Invests the \$1MM in Qualified Opportunity Zone Property



Qualified Opportunity Zone Sample Investment



Qualified Opportunity Funds

- **An Investment Intermediary**
 - Must be organized as a Corporation or Partnership
 - Purpose – to invest in OZs
 - Assets Test – Must hold at least 90% of assets in (1) stock or partnership interests of a Qualified Opportunity Zone Business, and/or (2) Qualified Opportunity Zone Business Property
- **Certification**
 - Statute authorizes fund certification by Treasury
 - Treasury announced Funds will “self-certify” by filing a form with their tax return
 - No limit on the number of Funds that can be created

Investments in Qualified Opportunity Zone Property

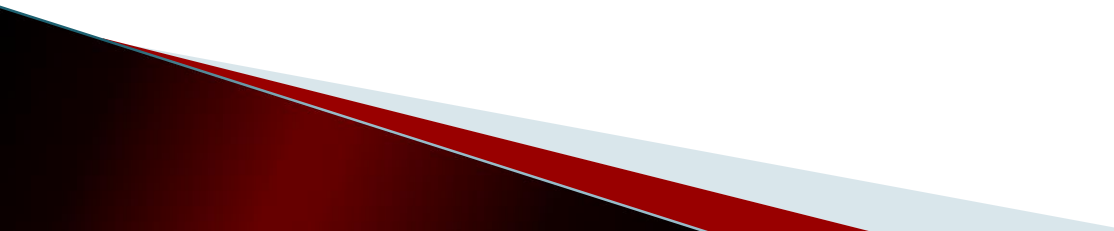


Issues to Consider and Restrictions

- “New” Property – must be acquired by purchase from an unrelated party (20% standard) after December 31, 2017
- Active Conduct – At least 50% of income derived from Active Conduct
- No more than 5% of the asset base of the opportunity zone business can be “nonqualified financial property”
- Prohibition on “Sin Businesses”
- Original use or substantial rehab – either:
 - Original use of the of the property within an OZ commences with the opportunity zone business; or
 - The opportunity zone business substantially improves the property

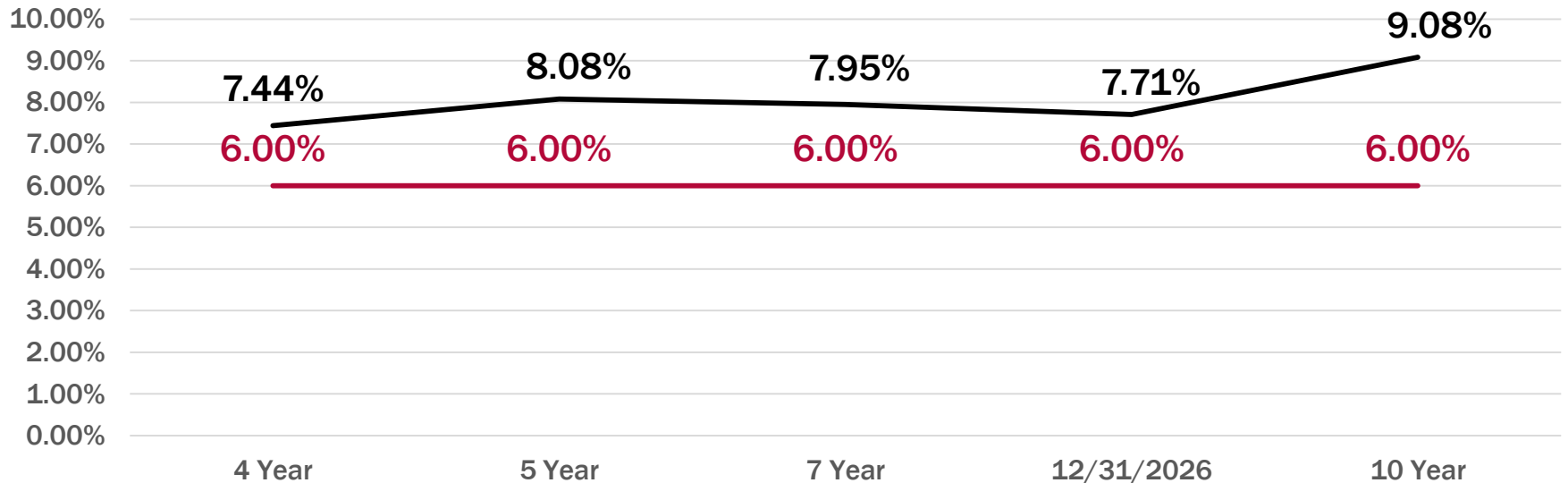
Qualified Opportunity Zone Business Property

Substantial Improvement Test:

- Property is treated as “substantially improved” if, during any 30-month period beginning after the acquisition of the property, additions to basis of the property exceed an amount equal to the adjusted basis of the property at the beginning of such period.
 - Land excluded
- 

OZ Incremental Benefit

— Standard After Tax IRR — Total IRR



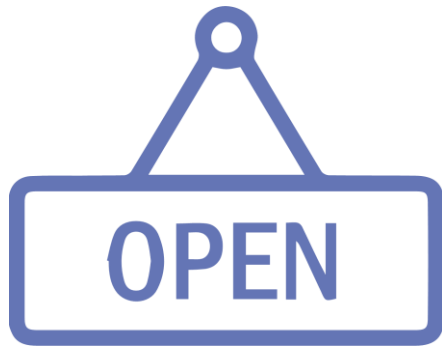
23.8% Tax Rate	4 Year	5 Year	7 Year	12/31/2026	10 Year
Standard After Tax IRR	6.00%	6.00%	6.00%	6.00%	6.00%
Incremental OZ Benefit	1.44%	2.08%	1.95%	1.71%	3.08%
OZ Investment IRR	7.44%	8.08%	7.95%	7.71%	9.08%
Percentage Increase	24%	35%	32%	29%	51%

*Table Source-Novogradac & Company (www.novoco.com/resource-centers/opportunity-zones-resource-center)

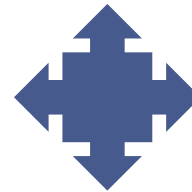
Readily Identifiable Investment Types in Opportunity Zones



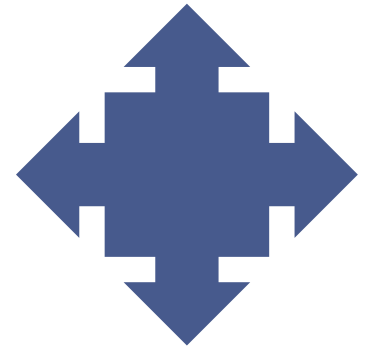
Commercial Real Estate Development and Renovation in Opportunity Zones



Opening New Businesses in Opportunity Zones

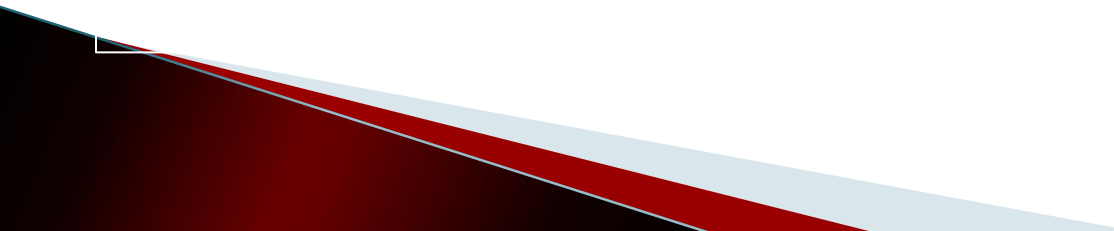


Expansion of Existing Businesses into Opportunity Zones



Large Expansions of Businesses already within Opportunity Zones

What can communities and economic developers do?

- Property Control / Asset Inflation
 - Good Projects / Developers / Business
 - Market your zones (following land control?)
 - \$\$ will find good deals
 - Rural?
 - OZ Deals & Business
 - Encourage high net worth locals w/ capital events to invest local
 - Create Fund?
- 

Opportunity Zone Mapping Kansas



Qualified Opportunity Zones

Questions?

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Shareholder, Polsinelli

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